

Message Text

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TO USMISSION OECD PARIS

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TAGS: EFIN, ECON, OECD

SUBJECT: COMMENTS ON CPE/TWP DRAFT PAPER ON "SOME ASPECTS
OF THE ECONOMIC IMPACT OF HIGHER OIL PRICES"

BRUSSELS PLEASE PASS VAN YPERSELE

REF: OECD PARIS 16195

1. MISSION REQUESTED PASS TO OECD SECRETARIAT FOLLOWING
COMMENTS ON SUBJECT PAPER. TO FACILITATE RE-DRAFTING, WE
ARE PROPOSING LANGUAGE FOR REVISIONS OF SECRETARIAT NOTE,
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ALONG WITH RATIONALE FOR OUR SUGGESTED CHANGES.
COMMENTS ARE KEYED TO PARAGRAPH NUMBERS OF SECRETARIAT
DRAFT.

TITLE. CHANGE TITLE TO READ QTE SOME ASPECTS OF THE ECONOMIC IMPACT OF HIGHER OIL PRICES ON OECD COUNTRIES
END QTE. COMMENT: PAPER DOES NOT PRETEND TO DEAL IN ANY GREAT DETAIL WITH IMPACT OF HIGHER OIL PRICES ON EITHER OPEC OR NON-OIL LDCS.

PARA 1. NO COMMENT.

PARA 2. SUBSTITUTE FOLLOWING FOR FIRST SENTENCE: QTE INDUSTRIALIZED COUNTRIES CONTINUE TO EXPERIENCE, AFTER ONE AND A HALF YEARS, THE IMPACT OF THE OIL CRISIS. ALTHOUGH

MOST OF THE DIRECT FIRST ROUND EFFECTS HAVE BEEN FELT, THE INDIRECT AS WELL AS THE SECONDARY EFFECTS ARE YET TO BE WORKED OUT. END QTE. ALSO ADD TRANSITIONAL WORD SUCH AS QTE NEVERTHELESS UNQTE AT BEGINNING PRESENT SECOND

SENTENCE. COMMENT: HERE AND ELSEWHERE WE ARE CONCERNED TO AVOID IMPLICATION THAT OIL CONSUMING COUNTRIES HAVE NOW ADJUSTED TO, AND CAN LIVE WITH, CURRENT HIGH OIL PRICES. DOMESTIC ADJUSTMENTS BOTH STRUCTURAL AND PSYCHOLOGICAL TO CHANGED RELATIVE PRICES ARE OBVIOUSLY NOT COMPLETED. ALSO, AS FACTUAL MATTER, THE PROCESS OF TRANSFERRING REAL RESOURCES TO THE OPEC COUNTRIES HAS ONLY JUST BEGUN.

PARA 3. NO COMMENT.

PARA 4. REVISE FIRST SENTENCE PARA 4 ALONG THE FOLLOWING LINES QTE SO FAR AS THE BALANCE OF PAYMENTS IS CONCERNED, THE CURRENT ACCOUNT POSITIONS OF OECD COUNTRIES

DETERIORATED SUBSTANTIALLY FROM A SURPLUS OF \$2 BILLION IN 1973 TO A DEFICIT OF \$34 BILLION IN 1974. FOR 1975, THE DEFICIT WILL BE SMALLER THAN EARLIER EXPECTED. END QTE. COMMENT: AS PRESENTLY DRAFTED, THIS PARAGRAPH IS

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ESSENTIALLY TALKING ABOUT THE FORECAST FOR THIS YEAR. SENTENCES RETAINED SHOULD BE IN PRESENT RATHER THAN PAST TENSE.

PARA 5. DELETE. COMMENT: A DECLINE IN RELATIVE OIL PRICES IN THE CONTEXT OF RISING OIL PRICES DOES NOT CONSTITUTE A CONTRIBUTION TOWARD THE EASING OF INFLATIONARY PRESSURES (ALTHOUGH THE BALANCE OF PAYMENTS CONSTRAINT MAY BE EASED). EVEN GIVEN CONSTANT OIL PRICES, A DECLINE IN RELATIVE PRICES ONLY COMES ABOUT FROM RISING PRICES OF EXPORT GOODS -- REFLECTING INFLATIONARY PRESSURES. WE BELIEVE STATEMENTS REGARDING OIL PRODUCERS'

TERMS OF TRADE SHOULD BE AVOIDED UNTIL FACTUAL SITUATION CLARIFIED. IT SHOULD BE BORNE INMIND IN THIS CONNECTION THAT PRODUCING GOVERNMENT REVENUES PROBABLY INCREASED SOME 25 DURING 1974 (IN ADDITION TO INCREASES IN POSTED PRICE ANNOUNCED DEC 1973 EFFECTIVE JAN 1, 1974) VIA BACKDOOR INCREASES. THE IRANIAN OIL COMPANY IN A COMMUNIQUE PUBLISHED IN THE WASHINGTON POST RECENTLY STATED THAT QTE THE OIL EXPORTING NATIONS WILL BE LOSING .. BETWEEN 30 AND 35 PERCENT OF THE PURCHASING POWER OF THEIR DOLLAR EARNINGS FROM OIL EXPORTS BETWEEN JANUARY

1974 AND SEPTEMBER 1975. END QTE. THEY CITE AS EVIDENCE OECD ESTIMATES THAT THE EXPORT PRICES OF OECD COUNTRIES TO OPEC INCREASED BY 25 PERCENT DURING 1974 AND THAT FUR-

THEIR INCREASE OF 10 TO 15 PERCENT IS ANTICIPATED BY THE END OF SEPTEMBER 1975 (THE EXPIRATION DATE OF THE OPEC PRICE FREEZE.) BY THIS PRESENTATION, IRANIANS HAVE LEFT THEMSELVES OPEN TO REPLY THAT THIS INCREASE WAS OFFSET BY ABOVE MENTIONED 25 OIL PRICE INCREASE IN FORM OF INCREASED GOVERNMENT TAKE BETWEEN JANUARY AND DECEMBER 1974.

PARA 6. REVISE FIRST SENTENCE AS FOLLOWS: QTE IF THE

OPEC COUNTRIES DECIDE SHORTLY TO RAISE THE OIL PRICE, THE IMPACT ON OECD COUNTRIES AND ON THE NON-OIL LDC'S WOULD BE VERY SERIOUS. END QTE ADD AT END SECOND SENTENCE: QTE AND IMPAIR PROSPECTS FOR ECONOMIC RECOVERY UNQTE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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COMMENT: SEE COMMENT ON PARA 5.

PARA 7. REVISE FIRST SENTENCE AS FOLLOWS: QTE THE OECD COUNTRIES ARE ONLY NOW BEGINNING TO SEE AN EASING OF INFLATIONARY PRESSURES AND SIGNS OF A BOTTOMING OUT OF THE CURRENT DEEP RECESSION. END QTE COMMENT: SEE PARA 5 RE COMMENT ON RELATIVE PRICES. MORE BROADLY, SEE COMMENT ON PARA 2. ANOTHER REASON FOR NOT DESCRIBING COSTS AS TEMPORARY IS THAT SO DOING IGNORES VIEW THAT GROWTH PATH OF OIL CONSUMING COUNTRIES HAS BEEN SHIFTED DOWNWARD FOR FORESEEABLE FUTURE, AND PERHAPS SLOPE AS WELL HAS BEEN LOWERED.

PARA 8. IN FIRST SENTENCE, DELETE QTE FOR BETTER OR WORSE. END QTE. DELETE LAST TWO SENTENCES AND SUBSTITUTE FOLLOWING SENTENCE AS BEGINNING PARA 9 QTE IN THESE CIRCUMSTANCES, IT MAY BE ASKED WHETHER IT WOULD BE DESIRABLE TO NEGOTIATE AN UNDERSTANDING WITH THE OIL PRODUCERS, FOR EXAMPLE, IN EXCHANGE FOR AN INITIAL SUBSTANTIAL REDUCTION, A GUARANTEE T O KEEP THE RELATIVE PRICE OF OIL

STABLE (AT ITS RESULTING LOW LEVEL) FOR A FEW YEARS. UNQTE

PARA 9.ADD FINAL SENTENCE, QTE IT MUST BE NOTED IN THIS CONNECTION THAT IT SEEMS HIGHLY UNLIKELY THAT OPEC WOULD ACCEPT AN INDEXATION SCHEME WHICH WAS NOT FAVORABLE TO THEM. END QTE COMMENT: SELF-EXPLANATORY.

PARA 10. NO COMMENT.

PARA 11. REVISE FIRST SENTENCE TO READ: QTE THE SEPARATE REPORT OF THE WORKING PARTY EXPLAINS WHY,

JUDGED IN THE LIGHT OF THE PRESENT FINANCIAL (UNDERLINE) SITUATION, THERE SEEMS NO NEED FOR OR ADVANTAGE IN OECD INITIATIVES TO CREATE SPECIAL INVESTMENT OUTLETS, OR ESPECIALLY FAVOURABLE TYPES OF ASSETS, FOR OPEC COUNTRIES. END QTE COMMENT: U.S. DELEGATION BELIEVES FOREGOING LANGUAGE MORE CLOSELY REFLECTS THE CONSENSUS AT THE TWO MAY MEETING.

PARA 12. NO COMMENT.

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ANNEXES. FOLLOWING ARE SLECTED COMMENTS ON ANNEXES I AND II, WHICH WE REGARD AS THE MINIMUM NECESSARY CHANGES TO BE MADE EVEN IN A DOCUMENT PUT OUT UNDER SECRETARIAT RESPONSIBILITY. WE WOULD FAVOR MORE EXTENSIVE REVISION, DESIGNED IN PART TO MAKE THE DOCUMENT LESS TECHNICAL AND MORE READILY UNDERSTANDABLE TO NON-ECONOMISTS. ALSO WE BELIEVE MORE EMPHASIS SHOULD BE GIVEN TO THE COST PUSH EFFECT OF OIL PRICE INCREASES

ANNEX I, PARA 8. AS WE READ SECRETARIAT FIGURES IN TABLE 14 CPE (75)5, EXPORT PRICES OF OECD COUNTRIES WENT UP CONSIDERABLY LESS THAN 35 PERCENT IN 1974. AVERAGE VALUE WENT UP ONLY 26-1/2 PERCENT, WHILE VALUE INCREASE OF 35 PERCENT INCLUDES A VOLUME INCREASE OF 7 PERCENT.

ANNEX I, PARA 9. QTE REPLACE FIRST SENTENCE WITH FOLLOWING :IN SUMMARY, IN A PERIOD OF ESSENTIALLY WORLD WIDE STAGFLATION, FOREIGN TRADE BECAME MORE A VEHICLE FOR THE TRANSMISSION OF INFLATION AND LESS A SOURCE OF ECONOMIC GROWTH. END QTE.

ANNEX I, PARA 10. WE BELIEVE THIS PARAGRAPH SHOULD BE DELETED. IT BOTH CONTAINS A NUMBER OF POINTS WE FIND QUESTIONABLE AND MORE APPROPRIATELY FALLS WITHIN THE SCOPE

OF THE PAPER PREPARED BY THE SECRETARIAT ON THE ISSUES CONCERNING INVESTMENT OF SURPLUSES BY OIL PRODUCERS. WE WILL BE PREPARED TO ADDRESS SPECIFIC POINTS IN THE CON-

TEXT OF THE LATTER PAPER.

ANNEX I, PARA 11. AS DISCUSSED EARLIER, WE HAVE PROBLEMS WITH ANALYSIS OF INFLATIONARY IMPLICATIONS OF MAINTENANCE OF RELATIVE PRICE OF OIL AND WITH STATEMENTS IMPLYING THAT OIL CONSUMING COUNTRIES HAVE NOW ADJUSTED TO CURRENT HIGH OIL PRICES. DELETE REFERENCE TO RELATIVE PRICE.

ANNEX I, PARA 12. VALUE JUDGMENT IN LAST SENTENCE OF THIS PARAGRAPH SEEMS AT LEAST PREMATURE IN VIEW OF STAGE OF ORGANIZATION'S WORK ON GROWTH PROSPECTS.

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ANNEX I, PARA 13. AS WITH PARA 12, WE BELIEVE THE VALUE JUDGMENTS IN THIS PARAGRAPH ARE AT LEAST PREMATURE.

ANNEX I, PARA 15. DELETE FIRST SENTENCE AS GIVING WRONG EMPHASIS.

ANNEX II, PARA 1. THIS PARAGRAPH SEEMS TO DOWNPLAY THE ROLE OF THE OPEC COUNTRIES AND OTHER LDCS AND GIVES TOO MUCH WEIGHT TO THE USE OF CURRENCIES FOR INTERNATIONAL TRANSACTIONS IN DISCUSSING THE RESPONSIBILITY FOR INFLATION. SUGGEST REDRAFT TO EMPHASIZE RESPONSIBILITIES OF ALL COUNTRIES, DELETING REFERENCE TO IMPACT OF USE OF CURRENCIES FOR INTERNATIONAL TRANSACTIONS.

ANNEX II, PARA 2. WE DO NOT ACCEPT THAT THE MONETARY UNCERTAINTIES CONTRIBUTED TO AN INCREASINGLY RAPID TRANSMISSION OF INFLATIONARY PRESSURES -- AND EVEN IF WE DID WE WOULD FEEL THAT THIS IS AN EXCEEDINGLY INOPPORTUNE STATEMENT TO BE MAKING. DELETE REFERENCE TO THIS TOPIC.

ANNEX II, PARAS 3 AND 5. AS SECRETARIAT IS AWARE, WE CONTINUE TO FEEL THAT THE FIGURES IN THESE PARAGRAPHS SUBSTANTIALLY UNDERSTATE IMPACT ON INFLATION OF ENERGY PRICE INCREASES.

ANNEX II, PARAS 6. SHOULDN'T THIS SENTENCE POINT TO THE NEED FOR RESPONSIBLE BEHAVIOR ON PART OF OIL PRODUCERS INSTEAD OF JUST A COOPERATIVE RESPONSE? INGERSOLL

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